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Nation's Restaurant News®

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

SECOND CLASS

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The interior of the $2 million, 3-story Palace Cafe, which is housed in the historic Werlein building in New Orleans.

Brennan family kingdom grows with new Palace

Cousins open New Orleans hybrid

by Jack Hayes

NEW ORLEANS — With the blueprint of an American dinner house and the menu and flair of a Parisian brasserie, the $2 million, three-story Palace Cafe is creating a bold, new image for the Brennan restaurant family on bustling Canal Street here.

Third-generation cousins Dickie Brennan Jr., Bradford Bridgeman and Ti Adelaide Martin — from the same side of the family that operates Commander's Palace, Mr. B's Bistro and Brennan's of Houston — are opening the Palace Cafe officially this week after a 21-day trial run that drew waiting lines with no advertising.

Linking the historic French Quarter, the downtown business center and the tourist

(See BRENNANS, page 75)

Charge card fees spur restaurateur rebellion

American Express mulls new commission rates

by Bill Carlino

BOSTON — With more than 100 restaurateurs here threatening to stop accepting the American Express card unless the commission rates are reduced, American Express revealed that it is re-evaluating its fee structure.

"We've been evaluating our pricing issue on a nationwide basis for several months now," Marcos Rada, American Express' president of public affairs, said while company officials were meeting here with the riled restaurateurs.

A decision on the rates will be reached by May 1, he said.

Restaurateurs here drew headlines when they said they could no longer afford to pay the assessments, explaining that the local economy had slid into a severe recession since the fees were set.

"Supply is up, and demand is down but American Express is apparently unaware that we're not doing the volumes of five years ago," said Steve DiFillippo, owner of Davio's, a three-unit upscale concept specializing in Northern Italian cuisine.

"You can't give a pricing advantage to one small group; you have to achieve parity for the entire restaurant industry," Rada explained. "You do not reset your discount rate in one afternoon."

DiFillippo's group said it wants American Express to roll back its commission fee to 2 percent, or approximately the same amount that is levied by such credit cards as MasterCard and Visa.

Every time a customer charges a meal on American Express, the restaurant pays a commission, or "discount rate," of 3 to 5 percent. The exact amount depends on the type of industry and its charge volume.

For instance, a restaurant grossing $500,000 in American Express charges would pay about $20,000 a year in American Express commissions calculated at an interest rate of 4 percent.

DiFillippo says the American Express fees for his trio of restaurants approaches $100,000 annually.

"If they don't change their commission rates, many owners won't have any recourse other than to raise menu prices," he said. In the midst of a recession,

(See BOSTON, page 75)

INSIDE

Foodservice suppliers gain in stature
Charles Bernstein/Page 21

Fast feeders see double from drive-thru mania
Segment Study/Page 27

View from the Vineyards 1991 honors Julia Child
Pages 38-42

BK 'breaks the rules' with new table service

Burger biggie aims to boost dinner sales

by Milford Prewitt

MIAMI — Burger King's introduction of limited table service at 900 company units could open a floodgate of new products and services for the No. 2 hamburger chain, said marketing executive Ned Owens.

"We have a lot going on here, and things are happening very fast," commented Owens, BK's manager of brand strategy. "All of this is part of a strategy to satisfy the customer" — and give Burger King's traditional fast-food image an unusual tweak.

The new dinnertime service, according to Owens, was inspired by Burger King's soon-to-expire advertising tag line, "Sometimes, you've got to break the rules." It marks an attempt by the chain to boost dinner sales by taking an unusual tack.

(See BURGER KING, page 75)

HOME OF THE BRAVES

Atlanta Braves fans cheer the home team at Fulton County Stadium, Atlanta, as ballpark concessions nationwide slide into high-profit niche. See story on page 32.

Williams replaces Hill as CRM prexy

by Carolyn Walkup

Hill

SHAWNEE MISSION, Kan. — Judy Williams has been named president and chief operating officer of Creative Restaurant Management, replacing Kenneth Hill, who took a high-level job at Applebee's after parting with CRM.

(See HILL, page 7)

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Vol. 25, No. 14 April 8, 1991

NEWS BRIEFS

BMI sues Chi-Chi's for playing tunes without a license

NEW YORK — BMI, an organization that collects royalties owed to musicians for the use of their songs, has filed a music copyright infringement suit against Mexican dinnerhouse operator Chi-Chi's Inc., a division of San Diego-based Foodmaker Inc.

The suit alleges that Chi-Chi's operations in Pittsburgh, Virginia Beach, Va., and Dearborn, Mich., played songs without paying for a BMI blanket license, which covers more than 2 million songs. It alleges that the outlets violated copyrights 36 times by playing such songs as John Lennon and Paul McCartney's "Love Me Do," Billy Joel's "We Didn't Start the Fire," and Chuck Berry's "Johnny B. Goode."

Chi-Chi's could end up paying $100,000 for each infringement, according to BMI spokeswoman Cindy Dupress. A yearly registration fee would be approximately $250 a year for each restaurant, she said.

BMI stated in a prepared release that they were diligent in getting the restaurants to secure licenses before they filed suit.

Chi-Chi's could not be reached for comment.

Atlanta Hardee's units to accept credit cards

ATLANTA — Three Hardee's franchisees here, including 70-unit Garner Food Services Inc., have agreed to accept credit cards under an exclusive one-year arrangement with Visa and MasterCard.

"We expect credit sales to hit at least 5 percent," said Debbi Shapiro, Garner's marketing director. She said that Hardee's customers are reacting with surprise when servers ask them: "Will that be cash or charge?"

Visa and MasterCard are spending equally on the ad program to promote the credit purchase option, she added. Both card logos are showing up on Hardee's door windows, pole signs and cashiers' uniforms.

Garner and the two other Atlanta franchisees, Prime Food Systems and COFA Restaurant Corp., operate 87 of this market's 100 Hardee's stores. Earlier this year, Hardee's sold most of its Atlanta units to Garner as part of an ongoing strategic plan to reduce its company-to-franchised store ratio.

Daytona Beach is the next of several markets that will launch the Visa-MasterCard test with Hardee's.

Pizza Hut taps Chiat Day proxy as marketing chief

WICHITA, Kan. — Pizza Hut's drive into the delivery business could get a boost from the appointment of Robert J. Perkins, formerly president of the Chiat Day Mojo advertising agency, as senior vice president of marketing.

Perkins is a specialist in "targeted marketing."

With the information Pizza Hut has amassed from its delivery customers, Perkins is expected to escalate the chain's battle with Domino's by making wider use of data-based and direct-mail marketing systems.

He will oversee a $100 million advertising budget.

Perkins succeeds David Novak, who left last year to become executive vice president of marketing for Pizza Hut's parent, Pepsico.

Furr's/Bishop's unitholders okay changeover plan

LUBBOCK, Texas — The unitholders of Furr's/Bishop's Cafeterias have given management the go-ahead to convert the limited partnership into a corporation.

Under a plan approved at a special meeting, each unit of the limited partnership will be converted into a right to collect 75 cents in cash; 0.6 percent of convertible preferred stock valued at $9, with a stated annual dividend of $1.17; and 0.25 percent of a common share in Furr's/Bishop's.

As part of the arrangement, Furr's/Bishop's is planning a self-tender offer for 2 million common shares for $4 each.

The company was one of a handful of foodservice concerns that opted several years ago to become a limited partnership because of the potential tax advantages.

FDA discloses plans to study safety of seafood plants

WASHINGTON — Responding to concerns about the safety of seafood, the Food and Drug Administration said it plans to evaluate the food handling procedures and sanitation conditions of all 4,100 of the nation's seafood processing plants.

The agency said that the tour was being undertaken to evaluate the current safety of seafood supply routes.

It also disclosed that it was testing a new safety program at four processing test sites, but did not divulge details.

A number of consumer advocacy groups have been calling for the mandatory inspection of seafood by the government. They note that inspectors are required to certify beef and chicken before it can be consumed, but no such approval is required of seafood.

The restaurant indusury has championed steps that would better safeguard the nation's seafood supply. However, many operators worry that mandatory inspection would increase the cost of the commodity.

Suntory closes Boston showcase

BOSTON — Blaming a soft local economy, Suntory International has shuttered its lavish Restaurant Suntory here after it failed to meet the parent company's break-even timetable.

"We'd been operating four years but our restaurant investment is so high: We are putting $4 million or $5 million in each restaurant," said Yoshiaki Oda, vice president of the Chicago-based Suntory subsidiary.

It intends to sell the Boston property but will wait until the current real-estate slump subsides, Oda said. The firm operates 18 of the high-end Japanese dinner houses worldwide, including an Atlanta branch launched in February and a 4-year-old Chicago restaurant, which reportedly grosses $2 million annually on tabs averaging $40 per person.

Tokyo-based Suntory Ltd. has 200 restaurants in Japan.

Three openings swell competition in San Francisco

SAN FRANCISCO — The opening here of three hotels — a Ritz-Carlton, the renovated Sheraton-Palace, and another Kimpco boutique hotel — will add more than a 1,000 rooms and at least five new restaurants to this highly competitive hospitality market.

The openings will bring the city's total room inventory to about 29,600 and are expected to slow, though perhaps only temporarily, the local industry's efforts to restore its composite occupancy level to the mid-70 percent range it enjoyed at times during the past decade. Mary Jo Martin, of the accounting and consulting firm of Pannell Kerr Forster, said San Francisco's 1990 occupancy rate was 70.4 percent.

Located in a renovated 82-year-old building on Stockton Street, between California and Pine, the new Ritz-Carlton San Francisco has 336 rooms. The 550-room Sheraton-Palace Hotel, on Market Street at New Montgomery, was to reopen last week, and Kimpco's latest, the 131-room Harbor Court Hotel, is scheduled to open April 15, on Steuart Street.

Sheriff seizes cruise-dining ship in Ohio

CLEVELAND — The Cuyahoga County Sheriff's Department has seized the Star of Nautica, a cruise-dining ship, because the owner has outstanding bills.

State Fish Co. is suing Star Line Inc. for over $7,408 in unpaid bills incurred by the Star of Nautica.

NOTICE

As part of its inducement to potential "Best of the Best" fine dining award candidates, the Milwaukee, Wis.-based organization behind the awards program is giving away free subscriptions to Nation's Restaurant News. Nation's Restaurant News is in no way affiliated with the organization or its awards program.

FINANCIAL NEWS

Casual-themers not so 'recession-proof' after all

by Milford Prewitt

Just a quarter or two ago, the casual dinner-house segment was churning out the kind of financial results that made some analysts speculate that the category was in some way "recession-proof."

NEWS ANALYSIS

With the exception of casual themer Chart House Enterprises, whose menu prices are among the highest of all chain operations in the industry, casual dinner houses prospered on the strength of low to moderate menu prices and a full-service yet casual atmosphere.

But as the recession lingers and the interest charges for chain expansion start to mount, the segment is beginning to show a few signs of vulnerability.

To be sure, the misery is not universal throughout the segment. Just recently, Chili's, Applebee's and O'Charley's all reported improved operating results in their most recent quarterly closings.

Chart House Enterprises, Famous Restaurants, Max & Erma's and Family Steakhouses of Florida, a steak-house operator that loosely fits the casual-theme mold, all have recently rereported declines in earnings, slumping sales or other unpalatable operating results.

Segment leader Chili's, for instance, recently reported a 30- percent gain in second-quarter net income

O'Charley's, a casual themer that went public on the eve of the Persian Gulf crisis, posted a 26-percent gain in earnings for the third quarter ended in October. (Its fourth quarter results are expected this week.)

But for others, the recession, taxes and higher operating costs are deflating profits.

Max & Erma's, a company that typified the fast-growth investment opportunities that drew many investors to the restaurant industry in the first place, has been particularly rocked by the recession, higher taxes and store expansion costs. For two consecutive quarters, the company has reported sinking earnings.

For the company's first quarter ended in February, net income slid 37 percent, down to $160,000, on a 30-percent gain in revenues, to $11.4 million.

> As the recession lingers and the interest charges for chain expansion start to mount, the segment is beginning to show a few signs of vulnerability.

For the fourth quarter ended in October, profits fell 44 percent, to $126,000.

For the full fiscal year, the company's net earnings declined 30 percent, to $835,000 on a 25-percent gain in revenues, to $30.4 million.

In statements about both quarter's results, company officials moaned about the recession's effect on sales and the impact of higher interest payments on profits.

But Todd Barnum, president, chief executive and chairman, indicated that in the later part of the first quarter of fiscal 1991, Max & Erma began witnessing a turnaround.

Just as the three-month period ended, lower expenses coincided with improving margins and an uptick in same-store sales, he said.

Just five months ago John Creed, president of Chart House, boasted to investors that "we believe we're a little recession proof."

Time has not verified that claim for the Solana Beach, Calif.-based seafood chain, which sits at the high end of the casual-theme segment.

For the fourth quarter ended Dec. 31, expansion costs and higher interest expenses pounded the company's earnings downward by 38 percent, to $349,000. Revenues grew by 17 percent, to $37.6 million.

For the year, however, earnings doubled, hitting $6.4 million on a 10-percent gain in revenues, to $154 million.

The company blamed its year-end problems on interest expenses stemming from the opening of 15 new outlets and a downturn in consumer spending brought on by the Middle East crisis and the recession.

The economy is also taking a toll on Famous Restaurants, the Scottsdale, Ariz.-based casual-theme operator of 116 Tex-Mex and seafood restaurants.

The company announced its intention to take a $13 million to $17 million charge to cover the cost of closing several underperforming restaurants and units where "excessively high rents are being renegotiated."

FOOD PRICE OUTLOOK

Calif.'s rains haven't ended drought

by Patt Patterson

Although the heavy rains in March were welcome, they didn't end California's drought problems. State water resources officials say reservoirs are still one-third or less of normal levels, and the snow pack is less than 60 percent. Severe cutbacks of water to farmers will probably continue. However, California farm groups say fresh produce output should be about normal. The squeeze could come in fruits and vegetables for canners and freezers.

Rains and cold weather have pushed prices for some California produce up sharply, since growth has been slowed and farmers can't get into the fields to harvest the smaller amounts that have matured. However, dryer weather should bring broccoli, carrot, cauliflower and strawberry prices down again.

Pork prices have leveled and may drop again with increased slaughter expected this spring. Hogs are reported to be coming up to weight earlier than usual. Beef prices are still running higher than last year's at this time, but a drop is expected when feedlots start sending cattle to market in larger quantities, reflecting increased numbers on feed.

Most frozen fish inventories are down from last year's, although cod fillets have increased, but not enough to push prices down much. Catfish production is running about the same as it was last year, with prices fairly stable. Egg prices have moved up again on restricted production. Broiler prices are running about 15 percent below last year's at this time, with supply continuing to increase at about 4 percent to 5 percent per month. Other operators are watching KFC's rollout of Lite 'N' Crispy skinless chicken, with an upswing in demand for skinless chicken possible.

Federal government purchases of dry beans are pushing market prices up. The same thing has happened to dried peas. Government buys of canned cling peaches and canned pears have pushed prices up. California packers are not planning a big spinach pack this year, although freezers say they plan normal packs.

FACT FILE

Men and women and eating out

Those who eat:	Total	Men	Women
	(in percentages)		
Pizza	92	93	90
Italian	84	88	81
Chinese	81	81	81
Mexican	79	79	78
Soul food	46	55	42
Cajun	40	49	30
French	32	36	29
Japanese	32	38	26
Caribbean	18	24	12

Source: The Research Advantage Inc., Hawthorne, NY

FINANCIAL DIGEST

Rax, investor group finalize equity deal

COLUMBUS, Ohio — Rax Restaurants has signed an agreement to receive $7 million in cash from an investment group that will end up owning 78 percent of the company if shareholders approve the arrangement.

The investment group, led by restaurant investor and former publisher Donald A. Karras, includes Ira Herman, Rax's chief executive and president, and CitiCorp Venture Capital.

Closure of the deal depends on the financial restructuring of the company and the forgiveness of about $11 million of its $45 million debt, much of it owed to Banc One Corp. Banc One has agreed to take the loss in exchange for a 7.5-percent stake in the company.

A two-thirds vote is required to approve the transaction. Rax's chairman, J.Pat Ross, and his family, who own almost 20 percent of Rax's outstanding shares, have given CitiCorp a proxy to cast their votes.

Skyline Chili reports 44% income gain

CINCINNATI — Tighter controls on expenses helped Skyline Chili post a 44-gain in net income, to $139,876, on a 3-percent gain in revenues, to $5.7 million, for the first quarter ended Feb. 17.

"For the last eight weeks of the quarter, our restaurant sales turned from robust to depressed, a condition we understand currently afflicts the restaurant industry in general," William G. Kagler, president and chief executive, said in a statement. 'We will keep a lid on expenses until we can be more confident that customer spending has strengthened."

The company said first-quarter results were favorably affected by lower beef and cheese costs, coupled with strong year-to-year gains in units' intake early in the quarter.

Cost controls buoy Vicorp's 1st-Q net

DENVER — A flattening of Vicorp Restaurants' operating costs led to a 50-percent gain in net income, to $3.4 million, on an 8-percent gain in revenues, to $124.6 million, for the first quarter ended Feb. 17.

"Given the difficult environment during the quarter, we are particularly pleased with the growth in our same-store sales," chairman Charles R. Frederickson said in a statement. "Restaurant operating income improved by 11.6 percent, a result of the increased sales volume coupled with essentially stable cost levels in our restaurants."

Max & Erma's 1st-Q net tumbles 37%

COLUMBUS, Ohio — Higher taxes and interest expenses led to a 37-percent drop in Max & Erma's net income, to $160,000, despite a robust 31-percent jump in revenues, to $11.4 million, for the first quarter ended Feb. 17.

During the year the 18-unit company's tax rate rose to 42 percent from 30 percent. Interest expenses related to a stock repurchasing plan also contributed to the company's declining earnings picture.

Moreover, higher operating and interest expenses related to the opening of six new restaurants during the past five quarters also affected profits, the company said.

Rally's earnings climb 36% in 2nd Q

LOUISVILLE, Ky. — Rally's posted a 36-percent gain in net income, to $1.1 million, on a 31-percent rise in revenues, to $19.8 million, for the second quarter ended Dec. 30.

The company did not respond to phone requests for an analysis of its continued earnings improvement.

For the first six months of the year, Rally's net income grew 61 percent, to $2.5 million, on a 36-percent boost in revenues, to $39.5 million. Meanwhile, systemwide sales jumped 19 percent, to $45.9 million, for the quarter and grew 23 percent for the six-month period, to $91.4 million.